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January 30, 2014

Jeffrey DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RE: *An Investigation of the Proposed Abandonment by AmeriGas Partners, L.P. and AmeriGas Propane, L.P. of Utility Service by Bright's Propane Service, Inc., in Old Bridge Subdivision, Boyle County, Kentucky*
Case No. 2013-00332

Dear Mr. DeRouen:

This letter is to correct and supplement the letter to the Commission on behalf of AmeriGas Partners, L.P. and AmeriGas Propane, L.P. ("AmeriGas") dated January 8, 2014.

By way of correction, page 12 of the January 8 letter states, "In addition, Bright's uses two underground storage tanks to serve a small number of customers in Old Bridge." Counsel subsequently learned that Bright's in fact uses three underground storage tanks in addition to the large above-ground tank to serve customers in the Old Bridge neighborhood. Of the three underground tanks, two have a capacity of 1,000 gallons each, and the third has a capacity of at least 500 gallons.

By way of supplementation, AmeriGas responds below to subsequent comments from residents of the Old Bridge neighborhood, specifically Allan Crain and Jim Porter's January 15, 2014 letter and Mr. Porter's January 16, 2014 e-mail to the Commission.

Messrs. Crain and Porter's January 15, 2014 Letter

In the following text, customer comments are in italics and AmeriGas's responses are in regular font.

We are hereby requesting a public hearing for the above case.

Neither Mr. Crain nor Mr. Porter is a party to this proceeding. As such, neither may make procedural motions or requests.

It has come to our attention there are many discrepancies in the information provided to the Commission and to us. This became evident upon reviewing the Profit & Loss statements of 2010 through 2012 of Heritage Operating, LP dba Bright's Propane Service, Inc. The amounts paid for propane gas, inventory, amounts charged calculations do not jibe.

AmeriGas is unaware of any discrepancies in the information it has provided to the Commission or to Messrs. Crain and Porter. Moreover, AmeriGas believes the information contained in the annual statements for Bright's filed with the Commission for 2010 through 2012, is correct, though it is unclear what Messrs. Crain and Porter believe does not "jibe."

The assignment of \$57,080, \$42,996, and \$50,070 respectively in Miscellaneous Expenses (account 880) appear to be disproportional to the customer base and the services rendered.

The Miscellaneous Expenses amounts are Bright's allocation of labor, fuel expense, and miscellaneous costs to the utility. Note that there are no other labor or vehicle costs listed in Bright's annual reports.

The breakdown of the \$42,996 Miscellaneous Expenses for 2011 is:

1. Labor cost: \$29,181
2. Vehicle costs including fuel: \$13,594
3. Miscellaneous cost for distribution: \$221

The same detail for the \$50,070 for 2012 is:

1. Labor cost: \$36,476
2. Vehicle costs including fuel: \$13,594

AmeriGas respectfully disagrees with Messrs. Crain and Porter's position that these costs are disproportional to the customer base or services rendered. In 2012, for example, Bright's total utility operating expenses were \$57,425, including the above-listed Miscellaneous Expenses, but excluding propane purchases of \$33,011 and depreciation of \$6,450. For that amount, Bright's provided customer service, meter reading, billing, tank filling, system inspection and maintenance. Providing those services to Bright's customers required multiple employees, insurance, multiple vehicles and fuel, regulatory-compliance costs, office supplies

and maintenance, postage, computer systems, and services from outside vendors, just to name a few items. So there is nothing disproportional about Bright's costs and the services it provides.

Viewed another way, in 2012 Bright's had total utility revenues of \$56,027. It purchased 682 Mcf of propane for \$33,011 and sold 586 Mcf; scaling the propane purchase cost for the amount sold results in a 2012 cost-of-propane-sold of \$28,364 ($586/682 * \$33,011$). Adding that propane expense (\$28,364) to depreciation expense (\$6,450) and a reasonable rate of return (solely for the sake of argument, 7%) on over \$200,000 of utility rate base (about \$14,000) results in \$48,814.¹ Thus, the only way Bright's could have earned a reasonable rate of return while covering propane and depreciation expenses would have been to operate the utility in all other respects for less than \$8,000 ($\$56,027 - \$48,814$). Bright's simply cannot provide service for so little; indeed, it is infeasible provide economical propane utility service to Old Bridge while earning a reasonable rate of return, which is why abandonment is appropriate.

Many of our fellow residents have expressed their displeasure and concern that the pipeline be abandoned as you have received their public comments.

It is certainly true that Old Bridge's residents have expressed their views in this proceeding through written comments, which is why a public hearing is not necessary in this proceeding.

Mr. Porter's January 16, 2014 E-mail

In an earlier communication it was stated that AmeriGas personnel "drove around" Old Bridge and counted 15 above ground propane gas tanks. The number was overstated by a factor of two as there are 8 above ground tanks in Old Bridge at this time. These tanks are for the most part small cylindrical utility tanks of approximately 60 gallons capacity. The newest and largest one of these is 120 gallons capacity. These tanks are used to supply gas grills or fireplaces, not for home heating.

In June 2013, District Manager Rick Harris observed 15 above-ground propane tanks from the road in the entirety of the Old Bridge neighborhood; that is what he testified in his affidavit that accompanied AmeriGas's application in Case No. 2013-00241, and that remains his testimony today. On January 6, 2014, Mr. Harris and counsel drove through a portion of the Old Bridge neighborhood—not the entire neighborhood—and from the road counsel took the photographs included in the January 8 letter to the Commission. The photographs clearly show seven above-ground propane tank installations containing nine total tanks, as well as one standpipe for an underground propane tank of unknown size. To be clear, AmeriGas does not claim to know the exact number of above-ground propane tanks at individual residences in the Old Bridge neighborhood; neither Mr. Harris nor counsel attempted to look for tanks from a

¹ The 7% rate of return assumes a return on equity of 10% and a debt cost of 4% with a capital structure comprising 50% equity and 50% debt. In fact, Bright's utility operations have no debt, so the calculations above assume imputed debt purely for illustration.

vantage point other than the road, and it is possible some residences have tanks in locations not visible from the road. Furthermore, when one considers that counsel's January 2014 tour of the Old Bridge neighborhood did not take in the entire neighborhood and was conducted in the snow (most propane tanks are white and therefore harder to see in the snow), and that it is possible that some residents may have moved or removed their tanks between June 2013 and January 2014, it is not incredible that counsel did not photograph 15 above-ground fuel tanks to match precisely Mr. Harris's June 2013 observation.

But the precise number and capacities of the above- and below-ground propane tanks at individual residences—as well as the purposes of the tanks—are irrelevant. What is relevant is their existence. That these tanks exist in the neighborhood and are easily visible from the road demonstrate that the claimed prohibitions against such tanks in Old Bridge are not being followed and that adding underground propane tanks will not materially affect the actual aesthetics of Old Bridge. Their existence demonstrates also that bottled propane service is available and ongoing in Old Bridge.

AmeriGas seems to equate these small tanks with the large 500-gallon tanks commonly used to supply homes, trailers, and outbuildings. The comparison is invalid because the smaller tanks are relatively unobtrusive and are generally located adjacent to a basement wall or chimney. The same cannot be said of the large "hot dog" tanks.

AmeriGas is not equating anything; rather, it has demonstrated that Old Bridge is not enforcing its claimed prohibitions on above- or below-ground fuel tanks, which prohibitions are claimed to be plenary and without qualification with regard to purpose, size, or appearance. Indeed, the prohibitions are not being enforced even against "hot dog" tanks; counsel's photos show there is at least one large above-ground "hot dog" tank at a residence in Old Bridge.

While AmeriGas has said that they will "bury the tanks at no cost to the customer" I am afraid they are underestimating the difficulty of accomplishing this. If you dig almost anywhere in Old Bridge you will strike limestone very quickly. Would they propose blasting next to people's homes to excavate for tank structures? I fear that after securing PSC approval to abandon our present master tank system AmeriGas would become much less diligent about their promise to bury tanks saying "we tried but there's too much rock we'll have to mount the tank above ground", and then I ask what will be our recourse?

AmeriGas does not propose to blast anything next to anyone's house.

AmeriGas understands that limestone may be present in all or parts of Old Bridge, just as it is present throughout the majority of the Commonwealth of Kentucky. But AmeriGas notes that whatever limestone may exist in Old Bridge has not prevented building numerous homes there with basements, which typically requires excavating to a depth of eight feet or more, whereas underground propane tanks require excavation to only four or five feet. Moreover, AmeriGas already has three large underground tanks in Old Bridge, so it is not impossible to

bury such tanks in at least some areas of the neighborhood; indeed, one of Mr. Porter's fellow residents already has an underground propane tank in her front yard to serve her home. And the purported limestone did not prevent Bright's from installing miles of underground propane distribution lines in Old Bridge, and it appears not to have prevented other utilities from burying the other existing underground utility lines in Old Bridge, including electric and communications lines. Such utility lines are typically placed below the frost line, two to three feet deep.

Nonetheless, it is possible that AmeriGas may not be able to bury every tank, though it is committed to use all reasonable efforts to do so. For customers whose tanks simply cannot be placed underground, AmeriGas will make reasonable efforts to protect the aesthetic appeal of Old Bridge by providing shrubbery, decorative fencing, or other aesthetic improvements for any above-ground tank.

I find their photographs of pad-mounted transformers, Cable T.V. service access enclosures, and even outside air conditioning or heat pump units to be disingenuous in the extreme. Once again AmeriGas is attempting to equate one thing to another. Any development that has underground electrical service has to have pad-mounted transformers. Better them than electrical lines strung on poles and pole mounted transformers. And in high-end developments every home is going to have cable access and one (or more) outside A/C units. But the presence of propane tanks practically screams out trailer park or farm building. AmeriGas may find them attractive but I can guarantee them that no one in Old Bridge does!

There was nothing disingenuous about the photographs in the January 8 letter. The purpose of the photographs was to show that there are indeed above-ground utility structures and propane tanks in Old Bridge. There is even a "hot dog" tank at a residence. Those are simply facts.

But it is important to reiterate that AmeriGas is not proposing to place above-ground tanks in Old Bridge; rather, AmeriGas will make all reasonable efforts to bury all the tanks it installs, and will make reasonable aesthetic improvements for any above-ground tanks impracticability forces it to install. In other words, AmeriGas is willing to take all reasonable steps to minimize the aesthetic impact of ending Bright's utility service in Old Bridge.

Paraphrase: AmeriGas is improperly allocating costs, and the expenses of servicing of the Old Bridge infrastructure are minimal. The logical basis of cost allocation is volumetric. AmeriGas should file a rate case for Bright's if it is under-earning.

As noted in the response above concerning cost allocation to Old Bridge, Bright's is not over-allocating expense to its utility service; rather, Bright's current rates are far too low to cover its reasonable operating expenses and to permit it to earn a reasonable rate of return.

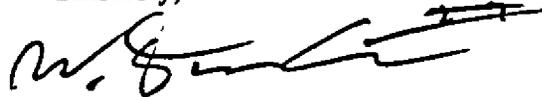
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Contrary to Mr. Porter's claim, it would be illogical to allocate Bright's operating expenses to its utility operations based on the quantity of propane sold. The bulk of Bright's utility operating costs—including meter reading, billing, accounting, customer service, compliance with administrative regulations, insurance, vehicle expense, depreciation, and system inspection, repairs, and maintenance—vary little, if at all, with the quantity of propane supplied.

Finally, AmeriGas is in fact losing money operating the Old Bridge gas system. If the Commission does not grant AmeriGas's requested abandonment, AmeriGas will likely heed Mr. Porter's advice and seek a substantial increase in rates.

If the Commission Staff has any further questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Duncan Crosby III", with a stylized flourish at the end.

W. Duncan Crosby III

WDC:ec